The Farmers Automobile Insurance Association

Report on Audits of Financial Statements - Statutory Basis

For the Years Ended December 31, 2019 and 2018

The Farmers Automobile Insurance Association

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Strohm Ballweg

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INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

To the Board of Directors
The Farmers Automobile Insurance Association
Pekin, Illinois

We have audited the accompanying statutory financial statements of The Farmers Automobile Insurance Association (the Association), which are comprised of the statutory balance sheets as of December 31, 2019 and 2018, and the related statutory statements of operations and changes in policyholders' surplus, and cash flows for the years then ended, and the related notes to the statutory financial statements.

Management's Responsibilities for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting practices prescribed or permitted by the Illinois Department of Insurance. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Association's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 to the financial statements, the financial statements are prepared by the Association in accordance with accounting practices prescribed or permitted by the Illinois Department of Insurance, which is a basis of accounting other than accounting principles generally accepted in the United States of America to meet the requirements of the state of Illinois.

The effects on the statutory financial statements of the variances between the statutory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America have not been determined but are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Association as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the statutory financial statements referred to above present fairly, in all material respects, the financial position of the Association as of December 31, 2019 and 2018, and the results of its operations and changes in policyholders' surplus, and its cash flows for the years then ended, in accordance with the accounting practices prescribed or permitted by the Illinois Department of Insurance described in Note 1.

Strohm Ballweg, LLP

Madison, Wisconsin
April 29, 2020

The Farmers Automobile Insurance Association

Statutory Balance Sheets
December 31, 2019 and 2018

	2019	2018
Admitted Assets:		
Bonds	$ 590,053,070	$ 616,454,615
Common Stocks:		
Affiliates	236,148,113	239,577,090
Other than Affiliates	73,610,815	54,232,399
Real Estate Occupied by the Association		
(Net of Accumulated Depreciation of $15,705,021 and $14,303,241)	31,243,225	22,535,334
Real Estate Held for Production of Income		
(Net of Accumulated Depreciation of $1,248,097 and $1,206,543)	1,027,550	1,076,587
Cash, Cash Equivalents, and Short-Term Investments	14,519,029	25,189,710
Securities Lending Reinvested Collateral Assets	3,692,264	6,920,514
Notes Receivable from Affiliate	-	50,000
Other Invested Assets	127,913	104,538
Total Cash and Invested Assets	950,421,979	966,140,787
Investment Income Accrued	5,248,844	5,368,796
Uncollected Premiums	178,768,857	191,253,315
Current Federal Income Tax Recoverable	5,173,640	12,136,031
Net Deferred Tax Asset	33,108,547	29,530,471
EDP Equipment		
(Net of Accumulated Depreciation of $9,099,381 and $8,724,226)	336,570	764,918
Receivable from Affiliate and Subsidiary	8,539,611	5,156,608
Recoverable from Reinsurers	7,050,342	1,253,675
Pension Benefit Plan Asset	2,553,032	-
Post-Retirement Benefit Plan Asset	-	4,082,904
Total Admitted Assets	$ 1,191,201,422	$ 1,215,687,505
Liabilities:		
Unpaid Losses, Net	$ 346,701,573	$ 326,668,750
Unpaid Loss Adjustment Expenses, Net	77,620,468	75,854,663
Unearned Premiums, Net	234,049,076	235,138,358
Commissions, Expenses, Fees, and Taxes	20,531,939	22,977,689
Drafts Outstanding	19,547,107	17,677,095
Remittances and Items Not Allocated	4,335,238	8,229,170
Advance Premiums	5,423,757	3,610,988
Payable for Securities Lending	3,692,264	6,920,514
Pension Benefit Plan Obligations	12,845,907	8,725,370
Post-Retirement Benefit Plan Obligations	12,240,678	9,720,235
Other Liabilities	20,424,134	19,760,480
Total Liabilities	757,412,141	735,283,312
Policyholders' Surplus:		
Special Surplus Fund	872,500	872,500
Unassigned Surplus	432,916,781	479,531,693
Total Policyholders' Surplus	433,789,281	480,404,193
Total Liabilities and Policyholders' Surplus	$ 1,191,201,422	$ 1,215,687,505

The accompanying notes are an integral part of the statutory financial statements.

The Farmers Automobile Insurance Association

Statutory Statements of Operations and Changes in Policyholders' Surplus
Years Ended December 31, 2019 and 2018

	2019	2018
Underwriting Operations:		
Net Premiums Earned:		
Direct Premiums Written	$ 236,973,518	$ 235,989,962
Reinsurance Assumed	396,725,100	403,195,858
Reinsurance Ceded	(160,563,565)	(159,335,452)
Net Premiums Written	473,135,053	479,850,368
Change in Net Unearned Premiums	1,089,283	6,316,970
Total Net Premiums Earned	474,224,336	486,167,338
Losses and Expenses Incurred:		
Net Losses	$ 308,071,156	$ 292,258,714
Net Loss Adjustment Expenses	58,033,625	49,531,522
Net Underwriting Expenses	170,447,267	152,181,929
Net Losses and Expenses Incurred	536,552,048	493,972,165
Underwriting Loss	(62,327,712)	(7,804,827)
Net Investment Income	21,062,039	21,265,374
Net Realized Capital Gains	1,598,533	5,274,767
Other Income	1,551,868	3,167,626
Net Income (Loss) Before Federal Income Tax	(38,115,272)	21,902,940
Federal Income Tax Benefit	(1,899,971)	(5,943,048)
Net Income (Loss)	$ (36,215,301)	$ 27,845,988
Statement of Changes in Policyholders' Surplus:		
Policyholders' Surplus - Beginning of Year	$ 480,404,193	$ 480,710,507
Changes in Policyholders' Surplus:		
Net Income (Loss)	(36,215,301)	27,845,988
Net Unrealized Capital Gains (Losses):		
Affiliates	(6,208,919)	6,560,175
Other than Affiliates	15,815,006	(10,592,832)
Non-Admitted Assets	(18,105,166)	(30,570,617)
Provision for Reinsurance	(72,000)	13,237
Net Deferred Income Tax	9,740,734	2,928,101
Pension Benefit Plan Obligations	(5,049,819)	1,616,171
Post-Retirement Benefit Plan Obligations	(6,519,447)	1,893,463
Net Decrease	(46,614,912)	(306,314)
Policyholders' Surplus - End of Year	$ 433,789,281	$ 480,404,193

The accompanying notes are an integral part of the statutory financial statements.

The Farmers Automobile Insurance Association

Statutory Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
Cash from Operations:		
Premiums Collected, Net of Reinsurance	$ 488,762,625	$ 475,036,906
Net Investment Income	24,827,243	25,560,202
Miscellaneous Income	1,551,868	3,167,626
Total Cash Received	515,141,736	503,764,734
Benefit and Loss Related Payments	293,835,001	295,869,623
Commissions, Expenses Paid, and Other Deductions	230,290,710	201,940,679
Federal Income Taxes Recovered	(8,343,063)	(1,265,089)
Total Cash Disbursed	515,782,648	496,545,213
Net Cash from Operations	(640,912)	7,219,521
Cash from Investments:		
Proceeds from Investments Sold, Matured, or Repaid:		
Bonds	116,980,173	128,219,084
Stocks	16,550,426	34,245,942
Real estate	50,745	-
Other Invested Assets	50,000	-
Miscellaneous	3,228,250	45,043
Total Investment Proceeds	136,859,594	162,510,069
Cost of Investments Acquired:		
Bonds	91,734,274	77,522,351
Stocks	21,822,196	43,509,478
Real Estate	10,152,935	4,199,343
Miscellaneous	23,375	556,470
Total Investments Acquired	123,732,780	125,787,642
Net Cash from Investments	13,126,814	36,722,427
Cash from Financing and Miscellaneous Sources:		
Other Cash Applied	(23,156,583)	(40,352,392)
Net Cash from Financing and Miscellaneous Sources	(23,156,583)	(40,352,392)
Net Change in Cash, Cash Equivalents, and Short-Term Investments	(10,670,681)	3,589,556
Cash, Cash Equivalents, and Short-Term Investments at Beginning of Year	25,189,710	21,600,154
Cash, Cash Equivalents, and Short-Term Investments at End of Year	$ 14,519,029	$ 25,189,710

The accompanying notes are an integral part of the statutory financial statements.

Notes to Financial Statements – Statutory Basis

1. Nature of Operations and Summary of Significant Accounting Practices

The Farmers Automobile Insurance Association (Association) is a regional Midwest property and casualty insurance company domiciled in the State of Illinois. The Association sells insurance through independent agents. Insurance products primarily include private passenger and commercial automobile, homeowners, workers' compensation, commercial multi-peril, general liability, and business owners' policies. Approximately 54 and 53 percent of the direct premium was written in the state of Illinois in 2019 and 2018.

The accompanying financial statements have been prepared in conformity with accounting practices prescribed or permitted by the Illinois Department of Insurance (statutory accounting practices).

Prescribed statutory accounting practices include those practices denoted in the National Association of Insurance Commissioners' (NAIC) *"Accounting Practices and Procedures Manual,"* as well as state laws, regulations, and general administrative rules. Permitted statutory accounting practices encompass all accounting practices not so prescribed when such practices are approved by the insurance department of the insurer's state of domicile. The Association does not use any permitted practices.

Accounting Estimates

The preparation of statutory financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Estimates that are particularly susceptible to significant change in the near term relate to: 1) the estimated unpaid losses and loss adjustment expenses, 2) the assumptions regarding the other than temporary impairment analysis of the investment portfolio, 3) the assumptions, including the discount rate, used to determine the benefit obligations for the defined benefit pension plan and other post-retirement benefit plan, and 4) the amount of deferred tax assets expected to be realized in future years.

Subsequent Events

Subsequent events were evaluated through April 29, 2020, which is the date the financial statements were available to be issued.

In early 2020, the World Health Organization declared the COVID – 19 (Coronavirus) outbreak to be a pandemic. The U.S. Government's response to the pandemic included significant limitations on many aspects of Americans' daily lives, including personal mobility and closures of many public facilities. These limitations have caused significant disruption to workflow for U.S. companies and also has negatively impacted the financial markets in the U.S. and around the globe. The Association has not made any adjustments to these financial statements as a result of the uncertainty.

Summary of Significant Accounting Practices and Differences Between Statutory Accounting and GAAP

A description of the significant accounting practices used by the Association and significant variances from accounting principles generally accepted in the United States of America (GAAP) are as follows:

A. Investments

Bonds and stocks are valued in accordance with rules prescribed by the NAIC. Investment grade bonds (i.e., NAIC designation 1 or 2) not backed by other loans are stated at amortized cost using a scientific method. Below investment grade bonds (i.e., NAIC designation 3 or higher) not backed by other loans are stated at the lesser of fair value or amortized cost with any change in the carrying value of the bond being treated as an unrealized gain/loss and credited/charged directly to surplus. Common stocks of non-affiliated companies are carried at market value and common stocks of insurance company affiliates are accounted for using the statutory equity method in which undistributed earnings are reported as unrealized gains and losses; under GAAP, the financial statements of wholly owned subsidiaries would be consolidated with those of the parent.

Loan-backed securities (mortgage-backed and asset-backed securities) are stated at amortized cost using a prospective basis. The prospective approach recognizes, through the recalculation of the effective yield to be applied to future periods, the effects of all cash flows whose amounts differ from those estimated earlier. Changes in amortization and amortized cost will occur in future periods. Assumptions for loan-backed securities are updated on a quarterly basis. Loan-backed securities with an initial NAIC designation of three or higher are carried at the lower of amortized cost or fair value. Agency pass-through and collateralized mortgage obligations use the three-month generic prepayment speed assumption. Non-agency collateralized mortgage obligations and asset-backed securities are updated using projected principal payment windows.

Investment income is recorded when earned. Realized gains and losses on sale or maturity of investments are determined on the basis of specific identification. Aggregate unrealized capital gains and losses are credited or charged directly to unassigned surplus. Unrealized capital losses on investments that are determined to be other than temporary declines in value must be recognized as realized capital losses. The Association reviews its investment portfolio on a periodic basis to determine other than temporary declines in value. In evaluating whether a decline in value is other than temporary, management considers several factors including, but not limited to: 1) the Association's ability and intent to retain the security for a sufficient amount of time for it to recover, 2) the extent and duration of the decline in value, 3) the probability of collecting all cash flows according to contractual terms in effect at acquisition or restructuring, 4) relevant industry conditions and trends, and 5) the financial condition and current and future business prospects of the issuer.

Investments in debt securities are generally carried at amortized cost and investments in equity securities are carried at fair value. Under GAAP, the Company's debt securities would be classified as held-to-maturity, trading, or available-for-sale. For GAAP, debt securities classified as held-to-maturity would be carried at cost or amortized cost and debt securities classified as trading or available-for-sale would be carried at fair value with the unrealized holding gains and losses reported in income for those securities classified as trading and as a separate component of surplus for those securities classified as available-for-sale. Equity securities would be carried at fair value with the unrealized holding gains and losses reported in income.

An occupancy rental charge on home office real estate owned is recorded as investment income and as offsetting rental expense; under GAAP, no such rental charge would be recognized.

B. Unpaid Losses and Loss Adjustment Expenses

The liabilities for unpaid losses and loss adjustment expenses are based upon management's estimates of reported and unreported losses determined on the basis of claim evaluation and past statistical experience. These liabilities are reported net of anticipated salvage and subrogation receivable. Reinsurance recoverables related to unpaid losses and loss adjustment expenses are netted with the respective liabilities; under GAAP, these reinsurance recoverables would be shown on a separate gross basis.

C. Policy Acquisition Costs

The costs of acquiring premium income are immediately charged against operations, whereas premium income is deferred over the periods covered by the policies. Under GAAP, costs which vary directly with the production of new and renewal business would be capitalized and amortized as premium is earned.

D. Deferred Tax Assets

Deferred income taxes are provided for differences between the financial statement and the tax bases of assets and liabilities and are reduced by a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. Additionally, under statutory accounting practices, limitations are placed on the admissibility of deferred tax assets. All changes in deferred tax assets and liabilities are reported as changes in surplus, and state income taxes are not included in deferred tax calculations; under GAAP, there is no admissibility concept, changes in deferred tax assets and liabilities would be reported through operations and/or surplus depending on their characteristics, and state income taxes would be included in the deferred tax calculation.

E. Special Surplus Fund

The special surplus fund is an appropriation of unassigned surplus established to meet Wisconsin statutory requirements.

F. Non-Admitted Assets

Certain assets designated as “non-admitted assets”, aggregating $128,260,566 and $110,155,375 at December 31, 2019 and 2018, respectively, are not recognized by statutory accounting practices. The increase in non-admitted assets is primarily due to the capitalization of an investment in a new policy administration system. Non-admitted assets are excluded from the balance sheet, and the net change in such assets is charged or credited directly to unassigned surplus. Under GAAP, such assets would be included in the balance sheet net of accumulated depreciation.

G. Premium Income Recognition

Premiums are earned over the terms of the related insurance policies and reinsurance contracts on a daily pro rata basis. Unearned premium reserves are established to cover the unexpired portion of premiums written and are computed on a pro rata basis. The Association determined that a premium deficiency reserve was not necessary for the years ended December 31, 2019 and 2018. The Association does not anticipate investment income as a factor in the calculation of a potential premium deficiency reserve.

H. Cash, Cash Equivalents, and Short-Term Investments

For purposes of reporting cash flows, the Association follows statutory accounting practices and considers cash in checking accounts, certain money market funds, and highly liquid debt instruments purchased with an original maturity of one year or less to be cash, cash equivalents, and short-term investments.

On December 31, 2019, the Association held on deposit $8,762,740 in financial institutions in excess of the amounts insured by the Federal Deposit Insurance Corporation (FDIC) limit. The Association does not believe it is exposed to any significant credit risks on this account.

I. Other

Real estate consists of home office properties and properties held for the production of income. Depreciation of real estate and other admitted and non-admitted assets is computed using the straight-line method over the estimated useful or class life.

Commissions on reinsurance ceded are credited to income at the time the premium is ceded; under GAAP, commissions on ceded premium would be deferred and recognized as income over the periods covered by the policies.

The Association, at the approval of the Board of Directors, has a line of credit with The Northern Trust Company not to exceed $30 million. The Association did not borrow any amounts against this line of credit during 2019 or 2018.

Statutory financial statements are prepared in a form using language and groupings substantially the same as the annual statement filed with the NAIC and state regulatory authorities which differ from the presentation and disclosure of financial statements that would be presented under GAAP.

Necessary reclassifications are made in prior period financial statements, whenever appropriate, to conform to the current presentation.

2. Affiliated Entity Transactions

The Association and its wholly owned subsidiary, Pekin Insurance Company, owned 87.10 percent and 85.83 percent of Pekin Life Insurance Company (PLIC) at December 31, 2019 and 2018, respectively. Specifically, the Association owned 79.52 percent and 78.25 percent of PLIC as of these dates. In 2019, Pekin Select Insurance Company was formed as a wholly owned subsidiary of Pekin Insurance Company.

The Association, Pekin Insurance Company, and Pekin Select Insurance Company occupy the same building, and, along with PLIC, utilize many common facilities, management, administrative and office personnel, and services. Since 1966, the Association and Pekin Insurance Company have had a reinsurance pooling agreement under which underwriting income and expense and other administrative expenses are prorated to the Association (80 percent) and to Pekin Insurance Company (20 percent). The proration does not include provisions for federal income taxes or results of investment transactions.

The Association and PLIC allocate related expenses to one another. Intercompany balances are paid periodically throughout the year based on estimates and settled within 45 days after year-end based on actual allocated expenses. Such net expenses allocated to PLIC, and therefore not included in the accompanying statements of income, were $7,637,183 in 2019 and $6,200,736 in 2018.

The Association, Pekin Insurance Company, and Pekin Select Insurance Company allocate related expenses to one another. Intercompany balances are paid periodically throughout the year based on estimates and settled within 45 days after year-end based on actual allocated expenses. Such net expenses allocated to Pekin Select Insurance Company, and therefore not included in the accompanying statements of income, were $178,142 in 2019.

In connection with structured settlements, the Association purchased 7 annuities from PLIC in 2019 and 12 annuities in 2018, of which the Association's claimant is the payee, but for which the Association is contingently liable. The single premium for these annuities totaled $826,134 and $1,274,688 in 2019 and 2018, respectively. The total reserve carried by PLIC at December 31, 2019 and 2018, was $9,427,914 and $8,825,373, respectively.

3. Investments

The admitted value, unrealized gain and loss, and market value of investments in bonds as of December 31, 2019, are as follows:

	2019			
Obligation	Admitted Value	Unrealized Gain	Unrealized Loss	Market Value
U.S. Government	$ 9,351,878	$ 318,359	$ 4,034	$ 9,666,203
Other Government	7,501,022	452,066	-	7,953,088
U.S. States, Territories, and Possessions	11,927,233	712,455	-	12,639,688
U.S. Political Subdivisions	33,629,111	2,439,689	-	36,068,800
U.S. Special Revenue and Special Assessment	59,349,494	2,271,185	-	61,620,679
Industrial and Miscellaneous	299,878,149	19,612,932	17,442	319,473,639
Loan-Backed Securities	168,416,183	3,181,365	200,974	171,396,574
Total	$ 590,053,070	$ 28,988,051	$ 222,450	$ 618,818,671

The admitted value, unrealized gain and loss, and market value of investments in bonds as of December 31, 2018 are as follows:

	2018			
Obligation	Admitted Value	Unrealized Gain	Unrealized Loss	Market Value
U.S. Government	$ 9,340,592	$ 67,521	$ 30,691	$ 9,377,422
Other Government	8,087,920	49,409	97,984	8,039,345
U.S. States, Territories, and Possessions	9,773,632	130,685	59,822	9,844,495
U.S. Political Subdivisions	32,731,589	1,103,619	224,920	33,610,288
U.S. Special Revenue and Special Assessment	52,524,678	1,061,634	116,924	53,469,388
Industrial and Miscellaneous	318,846,574	2,879,174	11,892,718	309,833,030
Loan-Backed Securities	185,149,630	679,124	3,312,332	182,516,422
Total	$ 616,454,615	$ 5,971,166	$ 15,735,391	$ 606,690,390

The admitted value of the loan-backed securities includes $338,836 and $433,376 of U.S. Government Guaranteed Securities for 2019 and 2018, respectively.

The admitted value and market value of bonds at December 31, 2019, by contractual maturity, are shown below:

	Admitted Value	Market Value
Due in One Year or Less	$ 34,033,329	$ 34,321,186
Due After One Year Through Five Years	170,301,426	175,539,609
Due After Five Years Through Ten Years	319,627,735	334,271,790
Due After Ten Years	66,090,580	74,686,086
Total	$ 590,053,070	$ 618,818,671

The adjusted cost, unrealized gain and loss, and statement value of investments in common stock as of December 31, 2019 are as follows:

	2019			
Common Stocks	Adjusted Cost	Unrealized Gain	Unrealized Loss	Statement Value
Affiliates	$ 82,636,127	$ 153,511,986	$ -	$ 236,148,113
Other Than Affiliates	52,965,052	21,744,441	1,098,678	73,610,815
Total	$ 135,601,179	$ 175,256,427	$ 1,098,678	$ 309,758,928

The adjusted cost, unrealized gain and loss, and statement value of investments in common stock as of December 31, 2018 are as follows:

	2018			
Common Stocks	Adjusted Cost	Unrealized Gain	Unrealized Loss	Statement Value
Affiliates	$ 79,856,184	$ 159,720,906	$ -	$ 239,577,090
Other Than Affiliates	49,401,642	9,492,133	4,661,376	54,232,399
Total	$ 129,257,826	$ 169,213,039	$ 4,661,376	$ 293,809,489

Securities with unrealized losses based on estimated market values as of December 31, 2019 are shown below:

	Less Than 12 Months		12 Months or More		Total	
Description of Securities	**Market Value**	**Unrealized Losses**	**Market Value**	**Unrealized Losses**	**Market Value**	**Unrealized Losses**
U. S. Government	$ 847,375	$ 3,394	$ 503,359	$ 640	$ 1,350,734	$ 4,034
Industrial and Miscellaneous	-	-	7,479,773	17,442	7,479,773	17,442
Loan-Backed Securities	11,815,295	42,517	24,637,553	158,457	36,452,848	200,974
Subtotal Debt Securities	12,662,670	45,911	32,620,685	176,539	45,283,355	222,450
Common Stock - Unaffiliated	2,623,014	169,929	9,857,739	928,749	12,480,753	1,098,678
Total Securities With Unrealized Losses	$ 15,285,684	$ 215,840	$ 42,478,424	$ 1,105,288	$ 57,764,108	$ 1,321,128

Securities with unrealized losses based on estimated market values as of December 31, 2018 are shown below:

	Less Than 12 Months		12 Months or More		Total	
Description of Securities	**Market Value**	**Unrealized Losses**	**Market Value**	**Unrealized Losses**	**Market Value**	**Unrealized Losses**
U. S. Government	$ -	$ -	$ 1,999,141	$ 30,691	$ 1,999,141	$ 30,691
Other Government	3,504,631	97,984	-	-	3,504,631	97,984
U.S. States, Territories, and Possessions	-	-	3,500,100	59,822	3,500,100	59,822
U.S. Political Subdivisions	2,306,840	17,688	9,154,475	207,232	11,461,315	224,920
U.S. Special Revenue and Special Assessment	5,636,920	52,703	5,114,265	64,221	10,751,185	116,924
Industrial and Miscellaneous	158,232,062	7,288,066	86,262,736	4,604,652	244,494,798	11,892,718
Loan-Backed Securities	65,600,969	638,773	85,315,475	2,673,559	150,916,444	3,312,332
Subtotal Debt Securities	235,281,422	8,095,214	191,346,192	7,640,177	426,627,614	15,735,391
Common Stock - Unaffiliated	37,758,555	4,113,172	3,283,763	548,204	41,042,318	4,661,376
Total Securities With Unrealized Losses	$ 273,039,977	$12,208,386	$194,629,955	$ 8,188,381	$ 467,669,932	$20,396,767

The components of net realized capital gains are as follows:

	2019	**2018**
Gains on disposals	$ 4,336,192	$ 8,726,613
Losses on disposals	(2,073,781)	(2,011,183)
OTTI	(144,579)	-
Total	$ 2,117,832	$ 6,715,430
Tax Expense	(519,299)	(1,440,663)
Net realized capital gains	$ 1,598,533	$ 5,274,767

Bonds carried at $2,030,474 and $2,029,832 at December 31, 2019 and 2018, respectively, were on deposit with the Illinois Department of Insurance as required by law. Bonds carried at $312,530 and $304,793 were on deposit with the Nevada Department of Insurance at December 31, 2019 and 2018, respectively, as required by law.

Securities Lending

The Association lends securities to agreed upon borrowers through an agreement with its custodian. The Association requires initial collateral from the borrower in an amount no less than 102 percent of the fair value of domestic securities and no less than 105 percent of the fair value of foreign securities loaned at the outset of the contract. All collateral so received is held either in the physical custody of the custodian or for the account of the custodian by their agent or a central bank. The offsetting collateral liability is included in Payable for Securities Lending. At December 31, 2019 and 2018, the amount of securities loaned was $3,663,530 and $6,529,182, respectively, and the related collateral was $3,742,533 and $6,694,662. At December 31, 2019, collateral assets valued at $63,561 had maturity dates beyond one year.

The aggregate amount of cash collateral received as of December 31, 2019 and 2018 is shown below by maturity date:

	2019	2018
Maturity Date	**Fair Value**	**Fair Value**
Open	$ 563,138	$ 2,928,318
30 Days or Less	223,977	378,671
31 to 60 Days	167,983	402,604
61 to 90 Days	345,046	175,508
Greater Than 90 Days	381,367	1,433,311
Total Bond Collateral Received	$ 1,681,511	$ 5,318,412
Total Equity Collateral Received	2,061,022	1,376,250
Total Collateral Received	$ 3,742,533	$ 6,694,662

The Association participates in a liquid asset portfolio. At December 31, 2019 and 2018, the aggregate value of the reported reinvested collateral was $3,692,264 and $6,920,514, and the related fair value was $3,744,299 and $6,681,511, respectively.

As of December 31, 2019 and 2018, the Association had $6,812,722 and $7,343,893, respectively, in gross restricted assets related to securities lending agreements. This amount represents collateral that has been accepted from the borrower.

4. Fair Value Measurement

Statutory Accounting Practices establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (level one measurements) and the lowest priority to unobservable inputs (level three measurements). The three levels of the fair value hierarchy under statutory accounting are described below:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets in active markets that the Association has the ability to access.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets in active markets; quoted prices for identical or similar assets in inactive markets; inputs other than quoted prices that are observable; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

The fair values of the Level 2 securities are obtained from independent pricing services or from the Association’s investment manager and are determined using quoted market prices from an orderly market at the reporting date for those or similar investments.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following table sets forth by level, within the fair value hierarchy, the Association's financial instruments that are reported at fair value within the statutory balance sheet as of December 31, 2019 and 2018:

	2019			
Description	**Level 1**	**Level 2**	**Level 3**	**Total**
Common Stock -				
Other Than Affiliates	$ 73,610,815	$ -	$ -	$ 73,610,815

	2018			
Description	**Level 1**	**Level 2**	**Level 3**	**Total**
Common Stock -				
Other Than Affiliates	$ 54,232,399	$ -	$ -	$ 54,232,399

There were no Level 3 assets at December 31, 2019 or 2018. The Association did not have any liabilities measured at fair value at December 31, 2019 and 2018.

The aggregate fair value of all financial instruments as of December 31, 2019, is shown below.

	Aggregate Fair Value	Admitted Assets	(Level 1)	(Level 2)	(Level 3)
Bonds	$ 618,818,671	$ 590,053,070	$ 9,666,203	$ 609,152,468	$ -
Common Stock:					
Affiliates	236,148,113	236,148,113	-	100,078,115 *	136,069,998 *
Other Than Affiliates	73,610,815	73,610,815	73,610,815	-	-
Agency Loans Receivable	124,668	124,668	-	-	124,668

The aggregate fair value of all financial instruments as of December 31, 2018, is shown below.

	Aggregate Fair Value	Admitted Assets	(Level 1)	(Level 2)	(Level 3)
Bonds	$ 606,690,390	$ 616,454,615	$ 9,377,422	$ 597,312,968	$ -
Common Stock:					
Affiliates	239,577,090	239,577,090	-	101,095,389 *	138,481,701 *
Other Than Affiliates	54,232,399	54,232,399	54,232,399	-	-
Notes Receivable	50,000	50,000	-	50,000	-
Agency Loans Receivable	104,538	104,538	-	-	104,538

* Values are determined using the statutory equity method and are not stated at fair market value.

The type of security included within each hierarchy in the above table is as follows:

Level 1 Measurements

Bonds: Comprised of actively traded U.S. Treasury notes.

Common Stock: Comprised of actively traded exchange listed mutual funds and common stocks.

Level 2 Measurements

Bonds: Comprised primarily of Political Subdivisions, Special Revenue, Industrial and Miscellaneous, and Loan-Backed securities.

Common Stock: Comprised of common stock of affiliate which is not actively traded and is recorded at the statutory equity method.

Notes Receivable: Comprised of a note receivable from affiliate.

Level 3 Measurements

Common Stock: Comprised of common stock of affiliates recorded using the statutory equity method.

Agency Loans Receivable: Comprised of uncollateralized loans

5. Liability for Unpaid Losses and Loss Adjustment Expenses

Activity in the liability for loss and loss adjustment expense reserves is summarized as follows:

	2019	2018
Balance at January 1	$ 445,755,839	$ 455,078,842
Less Reinsurance Recoverable	(43,232,426)	(47,372,898)
Net Balance at January 1	402,523,413	407,705,944
Incurred Related to:		
Current Year	387,056,954	366,994,694
Prior Years	(20,952,173)	(25,204,458)
Total Incurred	366,104,781	341,790,236
Paid Related to:		
Current Year	205,388,906	195,271,981
Prior Years	138,917,247	151,700,786
Total Paid	344,306,153	346,972,767
Net Balance at December 31	424,322,041	402,523,413
Plus Reinsurance Recoverable	43,898,474	43,232,426
Balance at December 31	$ 468,220,515	$ 445,755,839

The provision for incurred loss and loss adjustment expenses attributable to insured events in prior years decreased by $20,952,173 and $25,204,458 in 2019 and 2018, respectively. In both 2019 and 2018, incurred losses and loss adjustment expenses showed favorable development. The Association conducts regular analyses of reserves and revises estimates accordingly to reflect changes in trends and development.

Estimates of anticipated salvage and subrogation recoveries on losses and loss adjustment expenses have been recorded as a reduction to the liabilities for unpaid loss and unpaid loss adjustment expenses amounting to $15,886,000 and $15,777,149 at December 31, 2019 and 2018, respectively.

6. Reinsurance

The Association has reinsurance treaties in place for its property and casualty insurance business to reduce exposure to large losses. Although reinsurance does not relieve the Association of its legal liability to its policyholders, it provides a measure of protection against catastrophic losses and provides a means of risk reduction on individual losses. In order to maintain an appropriate balance between the cost of reinsurance and surplus growth, the Association periodically evaluates its retention levels correlated to specific types of property and casualty insurance policies. In 2019 and 2018, the Association ceded $42,310,637 and $39,372,860, respectively, of written premium to third parties.

The Association is also a party to an intercompany pooling agreement with Pekin Insurance Company. All direct business written by the Company is subject to the intercompany pool. Under this agreement, underwriting income and expenses and other administrative expenses are prorated to the Association (80 percent) and to Pekin Insurance Company (20 percent).

The Association had unsecured aggregate amounts recoverable for reinsurance on paid and unpaid losses and unearned premium in excess of three percent of policyholders' surplus for Pekin Insurance Company ($164,592,755) and Maiden Reinsurance Co ($18,442,042).

7. Pension Plan, Post-Retirement Benefits, 401(k) Savings Plan, and Deferred Compensation

Pension Benefits

The Association and its affiliates participate in a trusteed noncontributory defined benefit pension plan for certain employees. The Association and its affiliates adopted an amendment to freeze participation in the Plan for employees hired after January 1, 2013. The Association and its affiliates also adopted an amendment to freeze accrued benefits for all non-grandfathered participants. Non-grandfathered participants are participants who had not attained age 50 on or before December 31, 2017 and whose age and credited years of service as of December 31, 2017 did not exceed 75.

The funding policy is to contribute annually an amount that represents the current cost of benefits expected to be earned in the current year offset by the expected asset return higher than the discount rate, but no more than the maximum amount that can be deducted for federal income tax purposes. Each affiliate is charged for its applicable share of such contributions based on a percentage of the projected benefit obligation.

Post-Retirement Benefits

In addition to providing pension benefits, the Association and its affiliates provide certain health care and life insurance benefits (post-retirement benefits) for retired employees. Employees hired prior to 2013 may become eligible for these benefits if they reach retirement age while working for the Association.

Notes to Financial Statements – Statutory Basis

Expected Cash Flows

The Company and its affiliates expect to contribute to the Pension Plan in 2020. The amount of the contribution is not known. The Company and its affiliates do not expect to contribute to the Post-Retirement Benefit Plan in 2020.

The following benefit payments for the Association and its affiliates, which reflect expected cash flows for future service, as appropriate, are expected to be paid:

Year	Pension Benefits	Post-Retirement Benefits
2020	$ 7,616,000	$ 1,563,000
2021	9,762,000	1,676,000
2022	10,125,000	1,736,000
2023	10,064,000	1,825,000
2024	9,897,000	1,907,000
2025-2029	43,706,000	11,472,000

Notes to Financial Statements – Statutory Basis

Obligations, Assets, and Assumptions

A summary, on an aggregate basis, of obligations, assets, and net periodic benefit costs of the Pension and Post-Retirement Benefit Plans of the Association and its affiliates is as follows at December 31:

	Pension Benefits		Post-Retirement Benefits	
	2019	**2018**	**2019**	**2018**
Change in Benefit Obligation:				
Benefit Obligation at Beginning of Year	$ 89,020,004	$103,430,531	$43,720,842	$46,850,706
Service Cost	1,842,054	2,160,674	996,948	1,166,449
Interest Cost	3,263,608	3,093,356	1,829,136	1,651,489
Actuarial Loss (Gain)	20,213,265	(6,724,375)	9,586,236	(4,053,197)
Benefits Paid	(7,044,891)	(12,940,182)	(2,067,872)	(1,894,605)
Benefit Obligation at End of Year	$107,294,040	$ 89,020,004	$54,065,290	$43,720,842
Accumulated Benefit Obligation	99,098,129	81,080,905	54,065,290	43,720,842
Change in Plan Assets:				
Fair Value of Plan Assets at Beginning of Year	$ 74,229,358	$ 86,822,156	$24,198,757	$25,219,292
Actual Return on Plan Assets	14,751,061	(1,852,616)	708,190	707,880
Employer Contribution	9,000,000	2,200,000	-	-
Benefits Paid	(7,044,891)	(12,940,182)	(1,730,646)	(1,728,415)
Fair Value of Plan Assets at End of Year	$ 90,935,528	$ 74,229,358	$23,176,301	$24,198,757
Funded Status:				
Recognized Liabilities				
Accrued Benefit Costs	$ (3,818,549)	$ 2,695,941	$26,757,181	$26,339,011
Liability for Benefits	20,177,061	12,094,705	4,131,808	(6,816,926)
Total Liabilities Recognized	$ 16,358,512	$ 14,790,646	$30,888,989	$19,522,085
Unrecognized Liabilities	$ -	$ -	$ -	$ -
Components of Net Periodic Benefit Cost:				
Service Cost	$ 1,842,054	$ 2,160,674	$ 996,948	$ 1,166,449
Interest Cost	3,263,608	3,093,356	1,829,136	1,651,489
Expected Return on Plan Assets	(4,315,436)	(4,972,884)	(1,028,447)	(1,047,211)
Amortization of				
Transition Obligation	20,981	20,981	-	-
Net Losses	350,862	417,983	-	11,144
Prior Service Cost	-	-	(1,042,241)	(1,042,241)
Settlement/Curtailment	1,323,441	1,752,019	-	-
Total Net Periodic Benefit Cost	$ 2,485,510	$ 2,472,129	$ 755,396	$ 739,630

The net periodic benefit cost of the Pension and Other Post-Retirement Benefit Plans is measured on a seriatim basis that projects future benefit costs participant by participant based on demographic characteristics. The projected costs are discounted to a present value.

Notes to Financial Statements – Statutory Basis

Below is a summary, on a Company basis, of obligations, assets, and net periodic benefit costs of the Pension Benefit Plan at December 31:

	Farmers Automobile Insurance Association		Pekin Insurance Company		Pekin Life Insurance Company		Combined Companies	
	2019	2018	2019	2018	2019	2018	2019	2018
Benefit Obligation	$67,531,334	$56,349,242	$16,882,833	$14,087,310	$22,879,873	$18,583,452	$107,294,040	$ 89,020,004
Plan Assets	57,238,458	46,984,214	14,309,615	11,746,054	19,387,455	15,499,090	90,935,528	74,229,358
Underfunded	$10,292,876	$ 9,365,028	$ 2,573,218	$ 2,341,256	$ 3,492,418	$ 3,084,362	$ 16,358,512	$ 14,790,646
Accrued Benefit Costs	$ (2,553,031)	$ 1,568,940	$ (638,259)	$ 392,234	$ (627,259)	$ 734,767	$ (3,818,549)	$ 2,695,941
Liability for Benefits	12,845,907	7,796,088	3,211,477	1,949,022	4,119,677	2,349,595	20,177,061	12,094,705
	$10,292,876	$ 9,365,028	$ 2,573,218	$ 2,341,256	$ 3,492,418	$ 3,084,362	$ 16,358,512	$ 14,790,646
Net Periodic Benefit Cost	$ 1,420,384	$ 1,484,135	$ 355,094	$ 371,033	$ 710,032	$ 616,961	$ 2,485,510	$ 2,472,129

Below is a summary, on a Company basis, of obligations, assets, and net periodic benefit costs of the Post-Retirement Benefit Plan at December 31:

	Farmers Automobile Insurance Association		Pekin Insurance Company		Pekin Life Insurance Company		Combined Companies	
	2019	2018	2019	2018	2019	2018	2019	2018
Benefit Obligation	$33,457,413	$27,610,097	$ 8,364,353	$ 6,902,524	$12,243,524	$ 9,208,221	$ 54,065,290	$ 43,720,842
Plan Assets	14,341,495	15,282,000	3,585,374	3,820,499	5,249,432	5,096,258	23,176,301	24,198,757
Underfunded	$19,115,918	$12,328,097	$ 4,778,979	$ 3,082,025	$ 6,994,092	$ 4,111,963	$ 30,888,989	$ 19,522,085
Accrued Benefit Costs	$16,679,373	$16,411,001	$ 4,169,843	$ 4,102,749	$ 5,907,965	$ 5,825,261	$ 26,757,181	$ 26,339,011
Liability for Benefits	2,436,545	(4,082,904)	609,136	(1,020,723)	1,086,127	(1,713,299)	4,131,808	(6,816,926)
	$19,115,918	$12,328,097	$ 4,778,979	$ 3,082,026	$ 6,994,092	$ 4,111,962	$ 30,888,989	$ 19,522,085
Net Periodic Benefit Cost	$ 477,048	$ 473,659	$ 119,262	$ 118,415	$ 159,086	$ 147,556	$ 755,396	$ 739,630

Following are components of net periodic benefit cost as they related to unassigned surplus for the Association and its affiliates at December 31:

	Pension Benefits		Post-Retirement Benefits	
	2019	2018	2019	2018
Amounts in Unassigned Surplus Recognized as Components of Net Periodic Benefit Cost:				
Items Not Yet Recognized from Prior Year	$ 12,094,705	$ 14,184,563	$ (6,816,926)	$ (4,134,157)
Net Transition Obligation Recognized	(20,981)	(20,981)	-	-
Net Prior Service Cost Recognized	-	-	1,042,241	1,042,241
Net (Gain) Loss Arising During the Period	9,777,640	101,125	9,906,493	(3,713,866)
Net Loss Recognized	(1,674,303)	(2,170,002)	-	(11,144)
Items Not Yet Recognized Current Year	$ 20,177,061	$ 12,094,705	$ 4,131,808	$ (6,816,926)
Amounts in Unassigned Surplus Not Yet Recognized as Components of Net Periodic Benefit Cost:				
Net Transition Obligation Recognized	$ 20,981	$ 41,962	$ -	$ -
Net Prior Service Cost	$ -	$ -	$ (6,847,524)	$ (7,889,765)
Net Recognized Losses	$ 20,156,080	$ 12,052,743	$ 10,979,332	$ 1,072,839

Weighted average assumptions used to determine the projected benefit obligation are shown below at December 31:

	Pension Benefits		Post-Retirement Benefits	
	2019	2018	2019	2018
Discount Rate	3.02%	4.20%	3.51%	4.59%
Rate of Compensation Increase	3.50% to 8.25%	3.50% to 8.25%	N/A	N/A

Weighted average assumptions used to determine net periodic benefit cost are shown below for the years ended December 31:

	Pension Benefits		Post-Retirement Benefits	
	2019	2018	2019	2018
Discount Rate	4.20%	3.53%	4.59%	3.89%
Rate of Compensation Increase	3.50% to 8.25%	3.50% to 8.25%	N/A	N/A
Expected Long-Term Rate of Return on Plan Assets	6.00%	6.00%	4.25%	4.25%

The health care portion of the post-retirement benefit plan is contributory, with participants' contributions adjusted annually as determined by the Association; the life insurance portion of the post-retirement benefit plan is noncontributory. The health care cost trend rate in 2019 was 7.14 percent, graded to 6.72 percent for one year, then graded to 4.50 percent by 2028. In 2018 the health care cost trend rate was 7.61 percent, graded to 7.10 percent for one year, then graded to 4.50 percent by 2026.

The retirement plan assets are held in a deposit administration contract and equity securities. The Trustees of the Farmers Automobile Insurance Association Retirement Plan maintain a deposit administration contract with Pekin Life Insurance Company for pension benefits. The contract is a group annuity contract consisting of employer contributions with guaranteed interest, less annuities purchased, to provide benefit payments to retirees and lump sum benefits paid directly to participants. The fair value of the contract included in plan assets of the Association and its affiliates was $25,846,371 and $23,243,155 as of December 31, 2019 and 2018, respectively, or 28 and 31 percent of total plan assets. Equity securities comprise the remaining plan assets. At December 31, 2019 and 2018, equity securities, cash, and cash equivalents amounted to $65,089,157 and $50,986,203, respectively, or 72 and 69 percent of total plan assets.

The expected long-term rate of return on plan assets was selected based upon current market conditions, Association experience, and future Association expectations.

The specific goal of the investment portfolio is to maintain a fully funded plan over time to ensure the benefit for the plan participants. New contributions are invested in equity securities until the amount in equities exceeds 45 percent of the plan's total assets. Additional amounts will be paid into the deposit administration contract, unless the equity portfolio falls under 45 percent. If the equity portfolio exceeds 60 percent of the plan's assets, part of the equity portfolio will be liquidated and proceeds moved into the deposit administration contract within a reasonable time frame. There are three return objectives. The primary benchmark is the projected annual rate of return used by the plan's actuary. The average annualized investment performance of the invested assets, net of investment-related expenses, should be equal to or in excess of this benchmark. The secondary (equity) benchmark is the percent total rate of return of a balanced portfolio comprised of a 70 percent weighting of the Standard & Poor's 500 Index and a 30 percent weighting of the Barclay's Government Corporate Index. The secondary (fixed income) benchmark is the weighted average rate of return of the Pekin Life Insurance Company's bond portfolio, excluding mortgage-backed securities, less 0.75 percent which includes 0.25 percent for expenses and 0.50 percent for spread. All plan assets, in excess of those funds targeted for short-term cash flows needs, should be invested in a manner consistent with the basic principles of prudent long-term portfolio management. Derivatives, private placement securities, and commodity contracts are prohibited investment vehicles. The Trustees of the plan recognize the long-term nature of the majority of the plan's assets.

The Farmers Automobile Insurance Association Retirement Plan maintains an account to partially fund health benefits provided to certain retirees and eligible dependents through a deposit administration contract with Pekin Life Insurance Company. The permissible account funding was determined in accordance with generally recognized and accepted actuarial principles and practices, which are consistent with the Actuarial Standards of Practice. At December 31, 2019 and 2018, the fair value of the contract was $23,176,301 and $24,198,757, respectively. No contributions were made in 2019 and 2018 into the deposit administration contract.

The Association utilizes the following valuation techniques in determining the level within the fair value hierarchy of the Pension Plan and Post-Retirement Plan assets:

Level 1 – Quoted market prices reported on the active markets on which the individual stocks and money market funds are traded.

Level 3 – Principal valuation technique is discounted cash flows. Unobservable inputs are credit rate and payout date.

The following table sets forth by level, within the fair value hierarchy, the assets of the Pension Plan and Post-Retirement Plan at fair value as of December 31, 2019, for the Association and its affiliates:

	Assets at Fair Value as of December 31, 2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Pension Plan Assets:				
Equity Securities				
Communication Services	$ 2,985,363	$ -	$ -	$ 2,985,363
Consumer Discretionary	2,714,658	-	-	2,714,658
Consumer Staples	5,076,360	-	-	5,076,360
Energy	5,270,659	-	-	5,270,659
Financials	12,121,476	-	-	12,121,476
Health Care	7,507,795	-	-	7,507,795
Industrials	5,731,491	-	-	5,731,491
Information Technology	9,059,405	-	-	9,059,405
Materials	1,531,840	-	-	1,531,840
Utilities	11,025,110	-	-	11,025,110
Total Equity Securities	$ 63,024,157	$ -	$ -	$ 63,024,157
Cash and Cash Equivalents	2,065,000	-	-	2,065,000
Deposit Administration Contract	-	-	25,846,371	25,846,371
Total Pension Plan Assets	$ 65,089,157	$ -	$ 25,846,371	$ 90,935,528
Post-Retirement Plan Assets:				
Deposit Administration Contract	$ -	$ -	$ 23,176,301	$ 23,176,301
Total Post-Retirement Plan Assets	$ -	$ -	$ 23,176,301	$ 23,176,301

The following table sets forth by level, within the fair value hierarchy, the assets of the Pension Plan and Post-Retirement Plan at fair value as of December 31, 2018, for the Association and its affiliates:

	Assets at Fair Value as of December 31, 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Pension Plan Assets:				
Equity Securities:				
Consumer Discretionary	$ 2,378,617	$ -	$ -	$ 2,378,617
Consumer Staples	2,115,920	-	-	2,115,920
Energy	4,550,733	-	-	4,550,733
Financials	5,052,613	-	-	5,052,613
Health Care	9,255,590	-	-	9,255,590
Industrials	5,749,595	-	-	5,749,595
Information Technology	4,836,846	-	-	4,836,846
Materials	6,661,825	-	-	6,661,825
Telecommunications	1,173,060	-	-	1,173,060
Utilities	9,069,870	-	-	9,069,870
Total Equity Securities	$ 50,844,669	$ -	$ -	$ 50,844,669
Cash and Cash Equivalents	141,534	-	-	141,534
Deposit Administration Contract	-	-	23,243,155	23,243,155
Total Pension Plan Assets	$ 50,986,203	$ -	$ 23,243,155	$ 74,229,358
Post-Retirement Plan Assets:				
Deposit Administration Contract	$ -	$ -	$ 24,198,757	$ 24,198,757
Total Post-Retirement Plan Assets	$ -	$ -	$ 24,198,757	$ 24,198,757

Director Retirement Plan

Pursuant to a retirement plan for Directors elected prior to 2004, eligible Directors will receive a retirement benefit equal to the annual retainer in effect on the Directors' retirement dates. The Association's benefits paid were $48,750 in both 2019 and 2018. The Association's liability for the Directors' retirement benefit was $877,305 and $950,118 at December 31, 2019 and 2018, respectively.

401(k) Savings Plan

The Association and its affiliates participate in a voluntary 401(k) savings plan for eligible participants. Participation requires that an employee be at least 18 years of age and not a temporary employee. Employer contributions of $2,708,473 and $2,395,879 respectively, were made to this plan for all participants in 2019 and 2018.

Deferred Compensation

The Association maintains a deferred compensation plan for the Directors. This plan allows for voluntary deferral of all or any part of compensation to which a Director might otherwise be entitled to as Directors' fees, in accordance with the plan provisions. During 2019 and 2018, $23,000 and $56,000 of Directors' fees were deferred, respectively. The liability for Directors' deferred compensation was $487,752 and $464,355 at December 31, 2019 and 2018, respectively.

8. Federal Income Taxes

The Association is taxed as an insurance company under Section 831 of the Internal Revenue Code. Federal income tax expense differs from the amount obtained by applying the federal income tax rate of 21 percent to pretax income for the years ended December 31, 2019 and 2018, respectively, due to the following:

	2019	2018
Computed Expected Federal Income Tax Expense (Benefit)	$ (7,895,154)	$ 4,902,157
Increase (Decrease) in Taxes Resulting from:		
Tax Exempt Interest	(477,561)	(528,516)
Dividends Received Deduction	(81,933)	(101,182)
Adjustment for Prior Year (Over) Under Accrual	120,395	(4,488,278)
Unearned Premium	(45,750)	(265,313)
Pension Benefits	(865,614)	37,169
Post-Retirement Benefits	70,314	20,342
Loss Reserve Discounting	1,028,334	3,622
Salvage and Subrogation	-	(13,735)
Bonus Depreciation	657,972	18,209
Accelerated Deduction of Software Amortization	-	1,651,682
TCJA Reserve Adjustment	-	491,503
§847 Recoverable	-	(996,866)
Federal Net Operating Loss Carryforward	5,568,035	(4,171,552)
AMT Credit Applied	157,948	(631,795)
All Others	382,342	(429,832)
Federal Income Tax Benefit	$ (1,380,672)	$ (4,502,385)
Tax on Capital Gains	519,299	1,440,663
Tax Benefit	$ (1,899,971)	$ (5,943,048)

The components of the net deferred tax asset as of December 31, 2019 and 2018 are as follows:

	2019		
	Ordinary	Capital	Total
Gross Deferred Tax Assets	$ 56,223,535	$ 30,362	$ 56,253,897
Statutory Valuation Allowance	-	-	-
Adjusted Gross Deferred Tax Assets	56,223,535	30,362	56,253,897
Deferred Tax Assets Non-Admitted	6,162,658	-	6,162,658
Subtotal Net Admitted Deferred Tax Asset	50,060,877	30,362	50,091,239
Deferred Tax Liabilities	12,486,244	4,496,448	16,982,692
Net Admitted Deferred Tax Assets	$ 37,574,633	$ (4,466,086)	$ 33,108,547

	2018		
	Ordinary	Capital	Total
Gross Deferred Tax Assets	$ 46,022,538	$ -	$ 46,022,538
Statutory Valuation Allowance	-	-	-
Adjusted Gross Deferred Tax Assets	46,022,538	-	46,022,538
Deferred Tax Assets Non-Admitted	-	-	-
Subtotal Net Admitted Deferred Tax Asset	46,022,538	-	46,022,538
Deferred Tax Liabilities	14,141,079	2,350,988	16,492,067
Net Admitted Deferred Tax Assets	$ 31,881,459	$ (2,350,988)	$ 29,530,471

	Change		
	Ordinary	Capital	Total
Gross Deferred Tax Assets	$ 10,200,997	$ 30,362	$ 10,231,359
Statutory Valuation Allowance	-	-	-
Adjusted Gross Deferred Tax Assets	10,200,997	30,362	10,231,359
Deferred Tax Assets Non-Admitted	6,162,658	-	6,162,658
Subtotal Net Admitted Deferred Tax Asset	4,038,339	30,362	4,068,701
Deferred Tax Liabilities	(1,654,835)	2,145,460	490,625
Net Admitted Deferred Tax Assets	$ 5,693,174	$ (2,115,098)	$ 3,578,076

Notes to Financial Statements – Statutory Basis

The net admitted deferred tax asset was determined using the guidance related to admissibility provided in the following paragraphs of NAIC *Statement of Statutory Accounting Principles No. 101 (SSAP 101).*

	2019		
	Ordinary	**Capital**	**Total**
Admissible Under Paragraph:			
11a. Ability to Recover Taxes Paid in Prior Years	$ -	$ -	$ -
11b. Expected to be Realized, After Application of Threshold Limitations	33,078,185	30,362	33,108,547
11c. Offset of Deferred Tax Liabilities	16,982,692	-	16,982,692
Total Admitted Deferred Tax Assets	$50,060,877	$ 30,362	$ 50,091,239

	2018		
	Ordinary	**Capital**	**Total**
Admissible Under Paragraph:			
11a. Ability to Recover Taxes Paid in Prior Years	$ 962,519	$ -	$ 962,519
11b. Expected to be Realized, After Application of Threshold Limitations	30,072,863	-	30,072,863
11c. Offset of Deferred Tax Liabilities	14,987,156	-	14,987,156
Total Admitted Deferred Tax Assets	$46,022,538	$ -	$ 46,022,538

	Change		
	Ordinary	**Capital**	**Total**
Admissible Under Paragraph:			
11a. Ability to Recover Taxes Paid in Prior Years	$ (962,519)	$ -	$ (962,519)
11b. Expected to be Realized, After Application of Threshold Limitations	3,005,322	30,362	3,035,684
11c. Offset of Deferred Tax Liabilities	1,995,536	-	1,995,536
Total Admitted Deferred Tax Assets	$ 4,038,339	$ 30,362	$ 4,068,701

	2019	**2018**
Ratio Used to Determine Recovery Period and Threshold Limitation Amount Under Paragraph 11b	671%	754%
Amount of Adjusted Capital and Surplus Used to Determine Recovery Period and Threshold Limitation Under Paragraph 11b	$ 407,755,641	$ 457,833,171

Notes to Financial Statements – Statutory Basis

The major components of current income taxes incurred and net deferred tax assets as of December 31, 2019 and 2018, are as follows:

	2019	2018	Change
Current Income Tax			
Federal	$ (1,501,067)	$ (14,107)	$ (1,486,960)
Prior Year Under (Over) Accrual of Tax Reserves	120,395	(4,488,278)	4,608,673
Federal Income Tax Benefit	$ (1,380,672)	$ (4,502,385)	$ 3,121,713
Deferred Tax Assets:			
Ordinary:			
Discounting of Unpaid Losses	$ 6,995,312	$ 6,765,478	$ 229,834
Unearned Premium Reserve	9,830,061	9,875,811	(45,750)
Advance Premium	182,238	121,329	60,909
Compensation and Benefits Accrual	545,148	557,241	(12,093)
Pension Accrual	-	329,477	(329,477)
Post-Retirement/Health Care Accrual	3,502,668	3,446,310	56,358
Transition Liability for Pension Benefits	2,697,640	1,637,178	1,060,462
Transition liability for Post-Retirement Benefits	511,674	-	511,674
Net Operating Loss Carryforward	5,568,035	-	5,568,035
Tax Credit Carryforward	157,948	-	157,948
Nonadmitted Assets	24,831,193	22,392,047	2,439,146
Other	1,401,618	897,667	503,951
Total Ordinary Deferred Tax Assets	56,223,535	46,022,538	10,200,997
Non-Admitted	6,162,658	-	6,162,658
Admitted Ordinary Deferred Tax Assets	50,060,877	46,022,538	4,038,339
Admitted Capital Deferred Tax Assets	30,362	-	30,362
Admitted Deferred Tax Assets	$50,091,239	$ 46,022,538	$ 4,068,701
Deferred Tax Liabilities:			
Ordinary:			
Salvage and Subrogation	$ 181,788	$ 171,490	$ 10,298
TCJA Reserve Adjustment	2,750,328	3,440,521	(690,193)
Fixed Assets Bonus Depreciation	73,769	88,033	(14,264)
Accured Pension Prepaid Asset	536,137	-	536,137
Postretirement Benefit Reserve	-	857,410	(857,410)
Accelerated Deduction of Software Amortization	8,836,756	9,480,463	(643,707)
Other	107,466	103,162	4,304
Total Ordinary Deferred Tax Liabilities	12,486,244	14,141,079	(1,654,835)
Capital:			
Unrealized Gains	$ 4,496,448	$ 2,350,988	$ 2,145,460
Total Capital Deferred Tax Liabilities	4,496,448	2,350,988	2,145,460
Total Deferred Tax Liabilities	$16,982,692	$ 16,492,067	$ 490,625
Net Deferred Tax Assets	$33,108,547	$ 29,530,471	$ 3,578,076

The Association has no tax-planning strategies that had a material impact on adjusted gross and net admitted deferred tax assets.

There are no Federal income taxes which would be available for recoupment in the event of future tax losses.

As of December 31, 2019 and 2018, the Association had $26,514,451 and $0 net operating loss carryforwards, respectively. As of December 31, 2018, the Association had an Alternative Minimum Tax (AMT) credit carryforward of $315,897, of which $157,949 was used in 2019, leaving $157,948 as a carryforward as of December 31, 2019. As of December 31, 2019, and 2018, the Association had a foreign tax credit carryforward of $52,172 and $0, respectively.

The CARES Act was enacted on March 27, 2020 in response to COVID - 19. The CARES Act contains provisions for a five year net operating loss carryback, along with Alternative Minimum Tax (AMT) credit refunds. The tax provisions for 2019 and 2018 do not reflect these considerations.

In the opinion of management, the liability for federal income taxes is sufficient to cover computed taxes for the current and prior years that are currently payable. The Association and its affiliates file a unitary tax return with the State of Illinois. A state income tax expense of $579 and $284,274 in 2019 and 2018, respectively, is included in underwriting expenses.

As of December 31, 2019, the Association has not identified any material loss contingencies arising from uncertain tax positions.

9. Structured Settlements

The Association has purchased annuities of which the claimant is payee, but for which the Association is contingently liable. The aggregate amount of annuities from all life insurers was $9,443,814 and $8,983,721 at December 31, 2019 and 2018, respectively.

10. Capital and Surplus

The Association is required to maintain minimum capital and surplus established by the Illinois Department of Insurance (the Department). The Association is also subject to Risk-Based Capital (RBC) requirements promulgated by the NAIC and adopted by the Department. The RBC standards establish uniform minimum capital requirements for insurance companies. The RBC formula applies various weighting factors to financial balances or various levels of activities based on the perceived degree of risk. At December 31, 2019, the Association's surplus exceeded the minimum levels required by the Department and RBC standards.

The Association's unassigned surplus was increased (reduced) by the following cumulative amounts at December 31, 2019 and 2018, respectively:

	2019	2018
Net Unrealized Capital Gains	$ 174,157,750	$ 164,551,660
Non-Admitted Assets	(128,260,566)	(110,155,375)
Provision for Reinsurance	(72,000)	-

SUPPLEMENTAL FINANCIAL INFORMATION

Strohm Ballweg

CPAs • ADVISORS • CONSULTANTS

Independent Auditor's Report on the Supplementary Information

To the Board of Directors
The Farmers Automobile Insurance Association
Pekin, Illinois

Our audit was made for the purpose of forming an opinion on the statutory financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the statutory financial statements. The supplementary information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. This information is presented in a format consistent with the Annual Statement filed by the Association with the regulatory authorities. Such information has been subjected to the auditing procedures applied in the audits of the statutory financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the statutory financial statements as a whole.

Strohm Ballweg, LLP

Madison, Wisconsin
April 29, 2020

The Farmers Automobile Insurance Association

Summary Investment Schedule
December 31, 2019

	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement	
	Amount	%	Amount	%
1. Long-Term Bonds:				
01.01 U.S. governments	$ 9,690,714	1.0	$ 9,690,714	1.0
01.02 All other governments	7,501,022	0.7	7,501,022	0.7
01.03 U.S. states, territories and possessions, etc. guaranteed	11,927,233	1.3	11,927,233	1.3
01.04 U.S. political subdivisions of states, territories, and possessions, guaranteed	33,629,111	3.5	33,629,111	3.5
01.05 U.S. special revenue and special assessment obligations, etc. non-guaranteed	155,574,036	16.4	155,574,036	16.4
01.06 Industrial and miscellaneous	371,730,954	39.1	371,730,954	39.1
01.07 Hybrid securities	-	-	-	-
01.08 Parent, subsidiaries and affiliates	-	-	-	-
01.09 SVO identified funds	-	-	-	-
01.10 Unaffiliated Bank loans	-	-	-	-
01.11 Total long-term bonds	590,053,070	62.1	590,053,070	62.1
2. Preferred stocks:				
02.01 Industrial and miscellaneous (Unaffiliated)	-	-	-	-
02.02 Parent, subsidiaries and affiliates	-	-	-	-
02.03 Total preferred stocks	-	-	-	-
3. Common stocks:				
03.01 Industrial and miscellaneous Publicly traded (Unaffiliatec	69,457,755	7.3	69,457,755	7.3
03.02 Industrial and miscellaneous Other (Unaffiliated)	4,153,060	0.4	4,153,060	0.4
03.03 Parent, subsidiaries and affiliates Publicly traded	-	-	-	-
03.04 Parent, subsidiaries and affiliates Other	236,148,113	24.8	236,148,113	24.8
03.05 Mutual funds	-	-	-	-
03.06 Unit investment trusts	-	-	-	-
03.07 Closed-end funds	-	-	-	-
03.08 Total common stocks	309,758,928	32.6	309,758,928	32.6
4. Mortgage loans:				
04.01 Farm mortgages	-	-	-	-
04.02 Residential mortgages	-	-	-	-
04.03 Commercial mortgages	-	-	-	-
04.04 Mezzanine real estate loans	-	-	-	-
04.05 Total mortgage loans	-	-	-	-
5. Real estate:				
05.01 Properties occupied by company	31,243,225	3.3	31,243,225	3.3
05.02 Properties held for production of income	1,027,550	0.1	1,027,550	0.1
05.03 Properties held for sale	-	-	-	-
05.04 Total real estate	32,270,775	3.4	32,270,775	3.4
6. Cash, cash equivalents and short-term investments:				
06.01 Cash	5,948,161	0.6	5,948,161	0.6
06.02 Cash equivalents	8,570,868	0.9	8,570,868	0.9
06.03 Short-term investments	-	-	-	-
06.04 Total cash, cash equivalents and short-term investments	14,519,029	1.5	14,519,029	1.5
7. Contract loans	-	-	-	-
8. Derivatives	-	-	-	-
9. Other invested assets	-	-	-	-
10. Receivable for securities	3,244	-	3,244	-
11. Securities Lending	3,692,264	0.4	3,692,264	0.4
12. Other invested assets	124,669	-	124,669	-
13. Total invested assets	$ 950,421,979	100.0	$ 950,421,979	100.0

See Independent Auditor's Report on the Supplementary Information

The Farmers Automobile Insurance Association

Investment Risks Interrogatories
December 31, 2019

1. State the reporting entity's total admitted assets as reported on Page 2 of the annual statement. $ 1,191,201,422

2. State the 10 largest exposures to a single issuer/borrower/investment, excluding U.S. government, U.S. government agency securities, and those U.S. Government money market funds listed in the Appendix to the SVO Purposes and Procedures Manual as exempt, property occupied by the company and policy loans:

	1	2	3	4
	Issuer	Description of Exposure	Amount	Percentage of Total Admitted Assets
2.01	PEKIN INSURANCE CO	Affiliated Common Stock	$ 136,068,997	11.4%
2.02	PEKIN LIFE INSURANCE CO	Affiliated Common Stock	$ 100,078,116	8.4%
2.03	FANNIE MAE	Bond	$ 56,178,523	4.7%
2.04	FREDDIE MAC	Bond	$ 35,053,469	2.9%
2.05	AUSTIN TX REVENUE	Bond	$ 4,014,799	0.3%
2.06	WISCONSIN ST HLTH & EDUCTNL FA	Bond	$ 3,894,227	0.3%
2.07	CALIFORNIA ST	Bond	$ 3,860,810	0.3%
2.08	MSBAM 2015-C25 A5	MBS/CMO	$ 3,562,019	0.3%
2.09	MIAMI-DADE CNTY FL	Bond	$ 3,512,010	0.3%
2.10	CALIFORNIA ST UNIV REVENUE	Bond	$ 3,505,634	0.3%

3. State the amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC designation:

	Bonds	1	2		Preferred Stocks	3	4
3.01	NAIC-1	$ 490,598,897	41.2%	3.07	P/RP-1	$ -	0.0%
3.02	NAIC-2	$ 99,454,173	8.3%	3.08	P/RP-2	$ -	0.0%
3.03	NAIC-3	$ -	0.0%	3.09	P/RP-3	$ -	0.0%
3.04	NAIC-4	$ -	0.0%	3.10	P/RP-4	$ -	0.0%
3.05	NAIC-5	$ -	0.0%	3.11	P/RP-5	$ -	0.0%
3.06	NAIC-6	$ -	0.0%	3.12	P/RP-6	$ -	0.0%

4. Assets held in foreign investments:

		1		2
4.01	Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets?		Yes [ ]	No [X]
4.02	Total admitted assets held in foreign investments	$ 54,664,927		4.6%

5. Aggregate foreign investment exposure categorized by NAIC sovereign designation:

		1	2
5.01	Countries rated NAIC-1	$ 49,650,647	4.2%
5.02	Countries rated NAIC-2	$ 5,014,280	0.4%
5.03	Countries rated NAIC-3 or below	$ -	0.0%

The Farmers Automobile Insurance Association

Investment Risks Interrogatories
December 31, 2019

6. Largest foreign investment exposures by country, categorized by the country's NAIC sovereign designation:

		1	2
Countries designated NAIC-1:			
6.01	Country: United Kingdom	$ 9,512,427	0.8%
6.02	Country: Australia	$ 9,097,287	0.8%
Countries designated NAIC-2			
6.03	Country: Mexico	$ 2,514,193	0.2%
6.04	Country: Indonesia	$ 1,500,977	0.1%
Countries designated NAIC-3			
6.01	Country:	$ -	0.0%
6.02	Country:	$ -	0.0%

7. Aggregate unhedged foreign currency exposure: None

8. Aggregate unhedged foreign currency exposure categorized by NAIC sovereign designation: None

9. Largest unhedged foreign currency exposures by county, categorized by the countries' NAIC sovereign designa

   Countries designated NAIC-1: None

   Countries designated NAIC-2: None

   Countries designated NAIC-3 or below: None

10. List the 10 largest non-sovereign (i.e. non-governmental) foreign issues:

	1 Issuer	2 NAIC Rating	3	4
10.01	HSBC HOLDINGS PLC	1FE	$ 3,004,529	0.3%
10.02	MEDTRONIC PLC	L	$ 2,504,749	0.2%
10.03	DOOSAN HEAVY INDUSTRIES	1FE	$ 2,498,384	0.2%
10.04	SCENTRE GROUP TRUST 1/2	1FE	$ 2,496,328	0.2%
10.05	TRANSURBAN FINANCE CO	2FE	$ 2,493,908	0.2%
10.06	SINOPEC GRP OVERSEA 2015	1FE	$ 2,486,544	0.2%
10.07	ING GROEP NV	1FE	$ 2,123,773	0.2%
10.08	CREDIT SUISSE GROUP AG	2FE	$ 2,000,964	0.2%
10.09	MACQUARIE GROUP LTD	1FE	$ 2,000,000	0.2%
10.10	ROYAL BK SCOTLND GRP PLC	2FE	$ 2,000,000	0.2%

11. State the amount and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure:

    11.01 Are assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]

		1	2
11.02	Total admitted assets held in Canadian investments	$ -	0.0%

12. State the aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions (defined as investments having restrictions that prevent investments from being sold within 90 days):

    Assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets; therefore, detail not required for Interrogatory 12. Yes [X] No [ ]

The Farmers Automobile Insurance Association

Investment Risks Interrogatories
December 31, 2019

13. Assets held in equity interests less than 2.5% of the reporting entity's total admitted assets, therefore detail not required for interrogatory 13: Yes [ ] No [X]

	1 Issuer	2	3
13.02	PEKIN INSURANCE CO	$ 136,068,997	11.4%
13.03	PEKIN LIFE INSURANCE CO	$ 100,078,116	8.4%
13.04	MEDTRONIC PLC	$ 2,504,749	0.2%
13.05	ALPHABET INC-CL A	$ 2,358,598	0.2%
13.06	APPLE INC	$ 2,071,407	0.2%
13.07	MICROSOFT CORP	$ 1,834,209	0.2%
13.08	COCA-COLA CO/THE	$ 1,502,531	0.1%
13.09	BAXTER INTERNATIONAL INC	$ 1,428,397	0.1%
13.10	UNITEDHEALTH GROUP INC	$ 1,286,163	0.1%
13.11	SKYWORKS SOLUTIONS INC	$ 1,119,107	0.1%

14. State the amounts and percentages of the entity's total admitted assets held in nonaffiliated, privately placed equities (included in other equity securities) and excluding securities eligible for sale under Securities Exchange Commission (SEC) Rule 144a or SEC Rule 144 without volume restrictions:

    Assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets, therefore detail not required for interrogatory 14. Yes [X] No [ ]

15. State the aggregate amounts and percentages of the entity's total admitted assets held in general partnership interests (included in other equity securities):

    Assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets, therefore detail not required for interrogatory 15. Yes [X] No [ ]

16. With respect to mortgage loans reported in Schedule B, state the amounts and percentages of the reporting entity's total admitted assets held:

    Mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets, therefore detail not required for interrogatories 16 and 17. Yes [X] No [ ]

17. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as of the annual statement date: None

18. Are assets held in investments held in real estate reported less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]

19. Are assets held in investments held in mezzanine real estate loans less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]

20. State the amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:

		At Year-End 1	2	(Unaudited) 1st Qtr 3	At End of Each Quarter (Unaudited) 2nd Qtr 4	(Unaudited) 3rd Qtr 5
20.01	Securities lending (do not include assets held as collateral for such transactions)	$ 3,663,530	0.3%	$ 6,365,956	$ 5,474,205	$ 5,477,747

See Independent Auditor's Report on the Supplementary Information

Investment Risks Interrogatories
December 31, 2019

21. State the amounts and percentages indicated below for warrants not attached to other financial instruments, options, caps, and floors: None
22. State the amounts and percentages indicated below of potential exposure (defined as the amount determined in accordance with the NAIC Annual Statement Instructions) for collars, swaps, and forwards: None
23. State the amounts and percentages indicated below of potential exposure (defined as the amount determined in accordance with the NAIC Annual Statement Instructions) for futures contracts: None

The Farmers Automobile Insurance Association

Reinsurance Interrogatories
December 31, 2019

7.1 Has this reporting entity reinsured any risk with any other entity under a quota share reinsurance contract that includes a provision that would limit the reinsurer's losses below the stated quota share percentage (e.g., a deductible, a loss ratio corridor, a loss ratio cap, an aggregate limit or any similar provisions)?

Yes [ ] No [X]

9.1 Has the reporting entity ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by the statement: (i) it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; (ii) it accounted for that contract as reinsurance and not as a deposit; and (iii) the contract(s) contain one or more of the following features or other features that would have similar results:

a. A contract term longer than two years and the contract is noncancellable by the reporting entity during the contract term;

b. A limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity, or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer;

c. Aggregate stop loss reinsurance coverage;

d. A unilateral right by either party (or both parties) to commute the reinsurance contract, whether conditional or not, except for such provisions which are only triggered by a decline in the credit status of the other party;

e. A provision permitting reporting of losses, or payment of losses, less frequently than on a quarterly basis (unless there is no activity during the period); or

f. Payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity.

Yes [ ] No [X]

9.2 Has the reporting entity during the period covered by the statement ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates), for which, during the period covered by the statement, it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; excluding cessions to approved pooling arrangements or to captive insurance companies that are directly or indirectly controlling, controlled by, or under common control with (i) one or more unaffiliated policyholders of the reporting entity, or (ii) an association of which one or more unaffiliated policyholders of the reporting entity is a member where:

a. The written premium ceded to the reinsurer by the reporting entity or its affiliates represents fifty percent (50%) or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statement; or

b. Twenty-five percent (25%) or more of the written premium ceded to the reinsurer has been retroceded back to the reporting entity or its affiliates in a separate reinsurance contract.

Yes [ ] No [X]

The Farmers Automobile Insurance Association

Reinsurance Interrogatories
December 31, 2019

9.3 If yes to 9.1 or 9.2, please provide the following information in the Reinsurance Summary Supplemental Filing for General Interrogatory 9:

a. The aggregate financial statement impact gross of all such ceded reinsurance contracts on the balance sheet and statement of income;

b. A summary of the reinsurance contract terms and indicate whether it applies to the contracts meeting the criteria in 9.1 or 9.2; and

c. A brief discussion of management's principle objectives in entering into the reinsurance contract including the economic purpose to be achieved.

9.4 Except for transactions meeting the requirements of paragraph 32 of SSAP No. 62R, Property and Casualty Reinsurance, has the reporting entity ceded any risk under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either:

a. Accounted for that contract as reinsurance (either prospective or retroactive) under statutory accounting principles ("SAP") and as a deposit under generally accepted accounting principles ("GAAP"); or

b. Accounted for that contract as reinsurance under GAAP and as a deposit under SAP?

Yes [ ] No [X]